

SOLON COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS,
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND SCHEDULE OF FINDINGS
AND QUESTIONED COSTS

JUNE 30, 2011

SOLON COMMUNITY SCHOOL DISTRICT
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SOLON COMMUNITY SCHOOL DISTRICT
Officials
June 30, 2011

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---------------------------|----------------------------|---------------------|
| Board of Education | | |
| Dave Asprey | Board President | 2013 |
| Tim Brown | Board Member | 2011 |
| Dean A. Martin | Board Member | 2011 |
| Dick Schwab | Board Member | 2013 |
| Lianne Westcot | Board Member | 2013 |
| School Officials | | |
| Sam Miller | Superintendent | 2011 |
| Pat Moore | Business Manager/Treasurer | Indefinite |
| Brooke Robinson | District Secretary | Indefinite |
| C. Joseph Holland | Attorney | Indefinite |

KAY L. CHAPMAN, CPA PC

119 West Mississippi Drive Suite3

Muscataine, Iowa 52761

563-264-1385

Independent Auditor's Report

To the Board of Education
Solon Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Solon Community School District, Solon, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

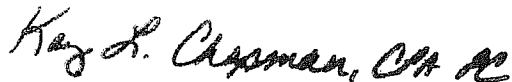
I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Solon Community School District as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated March 1, 2012 on my consideration of Solon Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 14 and 48 through 50 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Solon Community School District's basic financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. In my opinion, the information set forth in the supplementary information for each of the eight years in the period ended June 30, 2011 appearing in Schedule 7, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

A handwritten signature in black ink that reads "Kay L. Chapman, CPA PC". The signature is written in a cursive, flowing style.

Kay L. Chapman, CPA PC
March 1, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Solon Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$10,243,305 in fiscal 2010 to \$11,928,354 in fiscal 2011 and General Fund expenditures increased from \$10,229,940 in fiscal 2010 to \$11,373,419 in fiscal 2011. The District's General Fund balance increased from \$1,223,173 in fiscal 2010 to \$1,778,108 in fiscal 2011, a 45% increase.

- **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Solon Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Solon Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Solon Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the non-major governmental and enterprise funds. In addition the schedule of Expenditures of Federal Awards provides details of various federal programs benefitting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Solon Community School District Annual Financial Report

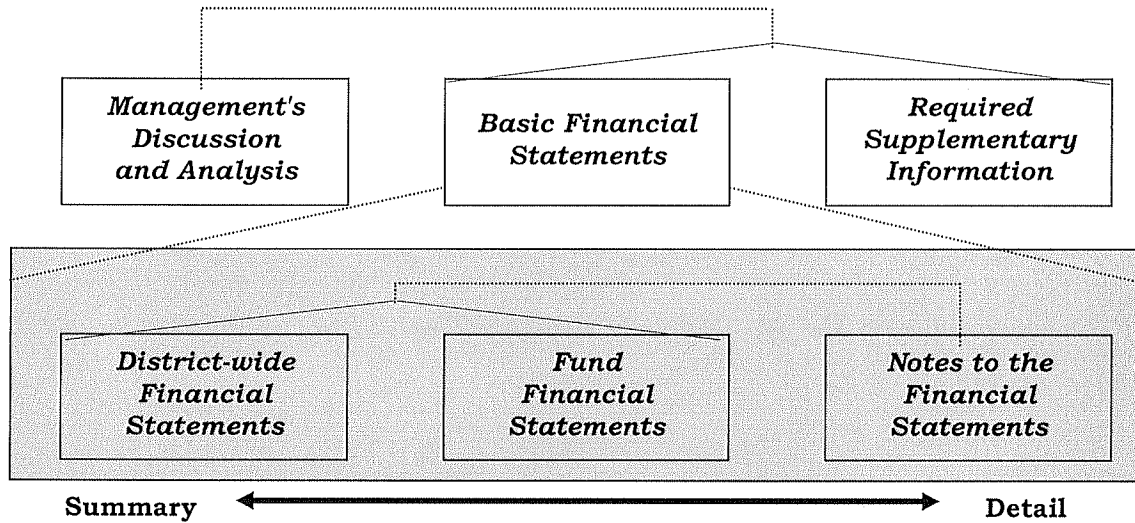


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

| Figure A-2 Major Features of the Government-wide and Fund Financial Statements | | | | |
|---|--|--|--|---|
| | Government-wide Statements | Fund Statements | | |
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire District (except fiduciary funds) | The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance | Activities the District operates similar to private businesses: food services, before and after school and preschool program | Instances in which the District administers resources on behalf of someone else, such as the water club program |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net assets • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances | <ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows | <ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, short-term and long-term | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid | All additions and deductions during the year, regardless of when cash is received or paid |

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition, before & after school and preschool programs are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Funds and Debt Service Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has three enterprise funds, the School Nutrition Fund, Before & After School Program Fund and Preschool Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

3) *Fiduciary fund*: The District is the trustee, or fiduciary, for assets that belong to others. This fund consists of a private-purpose trust fund.

- Private-purpose trust fund – The District accounts for outside donations for the maintenance of the Water Club in this fund.

The District is responsible for ensuring the assets reported in the fiduciary fund are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for the fiduciary fund include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2011 compared to June 30, 2010.

Figure A-3
Condensed Statement of Net Assets

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change 2010- 2011 |
|--|----------------------------|---------------------|-----------------------------|-------------------|----------------------|---------------------|----------------------------------|
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> | |
| Current and other assets | \$ 16,581,735 | \$ 16,914,201 | \$ 329,689 | \$ 305,608 | \$ 16,911,424 | \$ 17,219,809 | -1.79% |
| Capital assets | <u>12,978,520</u> | <u>10,771,605</u> | <u>45,951</u> | <u>46,572</u> | <u>13,024,471</u> | <u>10,818,177</u> | 20.39% |
| Total assets | <u>29,560,255</u> | <u>27,685,806</u> | <u>375,640</u> | <u>352,180</u> | <u>29,935,895</u> | <u>28,037,986</u> | 6.77% |
| Long-term liabilities | 12,753,335 | 12,867,394 | - | - | 12,753,335 | 12,867,394 | -0.89% |
| Other liabilities | <u>6,652,117</u> | <u>5,783,241</u> | <u>24,948</u> | <u>37,578</u> | <u>6,677,065</u> | <u>5,820,819</u> | 14.71% |
| Total liabilities | <u>19,405,452</u> | <u>18,650,635</u> | <u>24,948</u> | <u>37,578</u> | <u>19,430,400</u> | <u>18,688,213</u> | 3.97% |
| Net assets | | | | | | | |
| Invested in capital assets, net of related debt | 7,073,520 | 2,701,391 | 45,951 | 46,572 | 7,119,471 | 2,747,963 | 159.08% |
| Restricted | 1,343,103 | 4,338,521 | - | - | 1,343,103 | 4,338,521 | -69.04% |
| Unrestricted | <u>1,738,180</u> | <u>1,995,259</u> | <u>304,741</u> | <u>268,030</u> | <u>2,042,921</u> | <u>2,263,289</u> | 9.74% |
| Total net assets | <u>\$ 10,154,803</u> | <u>\$ 9,035,171</u> | <u>\$ 350,692</u> | <u>\$ 314,602</u> | <u>\$ 10,505,495</u> | <u>\$ 9,349,773</u> | 12.36% |

The District's combined net assets increased by 12%, or \$1,155,722 over the prior year.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$2,995,418, or approximately 69% from the prior year. Encompassed in this increase were reserved funds balances for at-risk, teacher mentor, teacher quality, core curriculum, professional development, with the majority being attributed to capital projects.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$220,368, or approximately 10%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-4
Change in Net Assets

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
|---|-------------------------|-------------------|--------------------------|----------------|-------------------|-------------------|------------------|
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2010-2011</u> |
| Revenues | | | | | | | |
| Program revenues | | | | | | | |
| Charges for service and sales | \$ 1,433,659 | \$ 1,198,018 | \$ 759,703 | \$ 724,288 | \$ 2,193,362 | \$ 1,922,306 | 14.10% |
| Operating grants | 1,861,908 | 1,989,235 | 84,794 | 88,800 | 1,946,702 | 2,078,035 | -6.32% |
| General revenues | | | | | | | |
| Property tax | 5,659,330 | 5,405,907 | - | - | 5,659,330 | 5,405,907 | 4.69% |
| Statewide sales, services and use tax | 1,449,531 | 1,356,269 | - | - | 1,449,531 | 1,356,269 | 6.88% |
| Unrestricted state grants | 4,546,169 | 3,846,317 | - | - | 4,546,169 | 3,846,317 | 18.20% |
| Contributions and donations | 123,061 | 117,925 | - | - | 123,061 | 117,925 | 4.36% |
| Unrestricted investment earnings | 128,027 | 45,896 | 1,748 | 4,794 | 129,775 | 50,690 | 156.02% |
| Other | 64,229 | 47,073 | - | - | 64,229 | 47,073 | 36.45% |
| Special revenue - gain (loss) on disposal of capital assets | (16,253) | 30,828 | - | - | (16,253) | 30,828 | -152.72% |
| Special item - interest and premium on issuance of bonds | - | 49,626 | - | - | - | 49,626 | -100.00% |
| Total revenues | <u>15,249,661</u> | <u>14,087,094</u> | <u>846,245</u> | <u>817,882</u> | <u>16,095,906</u> | <u>14,904,976</u> | 7.99% |
| Program expenses | | | | | | | |
| Governmental activities | | | | | | | |
| Instruction | 8,269,986 | 7,307,045 | - | - | 8,269,986 | 7,307,045 | 13.18% |
| Support services | 3,797,710 | 3,469,443 | - | - | 3,797,710 | 3,469,443 | 9.46% |
| Non-instructional programs | - | 5,450 | 810,155 | 856,472 | 810,155 | 861,922 | -6.01% |
| Other expenses | <u>2,062,333</u> | <u>1,585,848</u> | <u>-</u> | <u>-</u> | <u>2,062,333</u> | <u>1,585,848</u> | 30.05% |
| Total expenses | <u>14,130,029</u> | <u>12,367,786</u> | <u>810,155</u> | <u>856,472</u> | <u>14,940,184</u> | <u>13,224,258</u> | 12.98% |

| | | | | | | | |
|-------------------------------|---------------------|---------------------|-------------------|-------------------|---------------------|---------------------|---------|
| Change in net assets | 1,119,632 | 1,719,308 | 36,090 | (38,590) | 1,155,722 | 1,680,718 | -31.24% |
| Net assets, beginning of year | <u>9,035,171</u> | <u>7,315,863</u> | <u>314,602</u> | <u>353,192</u> | <u>9,349,773</u> | <u>7,669,055</u> | 21.92% |
| Net assets, end of year | <u>\$10,154,803</u> | <u>\$ 9,035,171</u> | <u>\$ 350,692</u> | <u>\$ 314,602</u> | <u>\$10,505,495</u> | <u>\$ 9,349,773</u> | 12.36% |

In fiscal 2011, property tax and unrestricted state grants account for 67% of the revenue from governmental activities while charges for service and sales and operating grants account for 99% of the revenue from business type activities.

The District's total revenues were \$16,095,906 of which \$15,249,661 was for governmental activities and \$846,245 was for business type activities.

As shown in Figure A-4, the District as a whole experienced an 8% increase in revenues and a 13% increase in expenses. The increase in expenditures was partially funded by additional revenues of charge for sales/service and property taxes.

Governmental Activities

Revenues for governmental activities were \$15,249,661 and expenses were \$14,130,029 for the year ended June 30, 2011. A few noteworthy increase within the governmental activities revenues were the increase in operating grants, largely due to ARRA stabilization funds and ARRA IDEA Part B Funding. In addition, an increase was shown in the area of contributions & donations.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-5

| | Total and Net Cost of Governmental Activities | | | | | |
|----------------------------|---|----------------------|---------------------|----------------------|---------------------|---------------------|
| | Total Cost of Services | | | Net Cost of Services | | |
| | 2011 | 2010 | Change 2010-2011 | 2011 | 2010 | Change 2010-2011 |
| Instruction | \$ 8,269,986 | \$ 7,307,045 | 13.2% | \$ 5,479,162 | \$ 4,606,242 | 19.0% |
| Support services | 3,797,710 | 3,469,443 | 9.5% | 3,773,899 | 3,448,290 | 9.4% |
| Non-instructional programs | - | 5,450 | -100.0% | - | 5,450 | -100.0% |
| Other expenses | <u>2,062,333</u> | <u>1,585,848</u> | 30.0% | <u>1,581,401</u> | <u>1,120,551</u> | 41.1% |
| Total expenses | <u>\$ 14,130,029</u> | <u>\$ 12,367,786</u> | 14.2% | <u>\$ 10,834,462</u> | <u>\$ 9,180,533</u> | 18.0% |

For the year ended June 30, 2011:

- The cost financed by users of the District's programs was \$1,433,659.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,861,908.
- The net cost of governmental activities was financed with \$5,659,330 in property taxes and \$4,546,169 in unrestricted state grants.

Business Type Activities

Revenues for business type activities for the year ended June 30, 2011 were \$846,245 representing a 3% increase over the prior year while expenses were \$810,155, a 5% decrease from the prior year. The District's business type activities include the School Nutrition Fund, Before & After School Fund and Preschool Fund. Revenues of these activities were comprised of charges for service, operating grants: investment earnings. Program expenses are categorized as non-instructional.

INDIVIDUAL FUND ANALYSIS

As previously noted, Solon Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$9,296,628, well below last year's ending fund balances of \$10,183,103.

Governmental Fund Highlights

- The General Fund balance increased from \$1,223,173 in 2010 to \$1,778,108 in 2011 as a result of a larger spread between current assets and liabilities. It is important to remember that although the fund balance increased there are restricted funds encompassed within the fund balance referenced.
- The Capital Projects - Statewide Sales, Services and Use Tax Fund balance decreased from \$8,037,573 at June 30, 2010 to \$6,087,623 at June 30, 2011. The District in March 2011 issued SAVE Revenue Bonds. The proceeds are being used for improvements to the elementary and the middle school. The middle school project was substantially completed.
- The Debt Service Fund balance increased from \$151,733 at June 30, 2010 to \$155,926 at June 30, 2011.

Proprietary Fund Highlights

Enterprise Fund net assets increased from \$314,602 at June 30, 2010 to \$350,692 at June 30, 2011, representing an increase of approximately 11%. There was a 7% decrease in total assets for the Enterprise Fund ending June 30, 2011. In addition, total liabilities decreased \$12,430 or 33%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Solon Community School District amended its annual budget twice for increased expenditures for grant programs, plant operation and maintenance, construction project and costs of refunding general obligation bonds. The District's revenues were \$546,690 less than budgeted revenues, a variance of approximately 3%.

Total expenditures were \$3,114,746 less than budgeted. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should exceed actual

expenditures for the year. Additionally, other expenses were substantially under budget in relation to Building project estimates.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had invested \$13,024,470, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of approximately 20% over last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$901,193.

The original cost of the District's capital assets was \$24,269,326. Governmental funds account for \$24,169,964, with the remainder of \$99,362 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the improvements other than buildings category. The District's improvements other than buildings category totaled \$1,484,352 at June 30, 2011 compared to \$155,377 at June 30, 2010. This increase was due to the addition of the outdoor events center.

Figure A-6

Capital Assets, Net of Depreciation

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
|------------------------------------|-------------------------|----------------------|-----------------------------|------------------|----------------------|----------------------|-----------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2010-2011 |
| | | | | | | | |
| Land | \$ 600,427 | \$ 600,427 | \$ - | \$ - | \$ 600,427 | \$ 600,427 | 0.00% |
| Construction in progress | 2,380,763 | 1,050,321 | - | - | 2,380,763 | 1,050,321 | 126.67% |
| Buildings and improvements | 7,855,650 | 8,244,350 | - | - | 7,855,650 | 8,244,350 | -4.71% |
| Improvements, other than buildings | 1,484,352 | 155,377 | - | - | 1,484,352 | 155,377 | 855.32% |
| Furniture and equipment | <u>657,328</u> | <u>721,130</u> | <u>45,950</u> | <u>46,572</u> | <u>703,278</u> | <u>767,702</u> | -8.39% |
| Totals | <u>\$ 12,978,520</u> | <u>\$ 10,771,605</u> | <u>\$ 45,950</u> | <u>\$ 46,572</u> | <u>\$ 13,024,470</u> | <u>\$ 10,818,177</u> | 20.39% |

Long-Term Debt

At June 30, 2011, the District had \$12,753,335 in general obligation and other long-term debt outstanding. This represents a decrease of less than 1% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

The District continues to carry a general obligation bond rating of Aa3 assigned by national rating agencies to the District's debt since 1997. The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$15.5 million.

In April 2011, the District issued \$6,060,000 of refunding general obligation bonds to refund \$6,050,000 of general obligation bonds from a 2006 issue.

Figure A-7

| | Outstanding Long-term Obligations | | |
|--------------------------|-----------------------------------|---------------------|------------------|
| | Total | | Total |
| | School District | | Change |
| | <u>2011</u> | <u>2010</u> | <u>2010-2011</u> |
| General obligation bonds | \$ 6,315,000 | \$ 6,840,000 | -7.68% |
| Revenue bonds | 5,905,000 | 5,905,000 | 0.00% |
| Compensated absences | 23,301 | 22,965 | 1.46% |
| Early retirement | 409,636 | 51,351 | 697.72% |
| Net OPEB liability | <u>100,398</u> | <u>48,078</u> | 108.82% |
| Total | <u>\$12,753,335</u> | <u>\$12,867,394</u> | -0.89% |

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several possible upcoming circumstances that could significantly affect its financial health in the future:

- Both Johnson & Linn County SAVE ballot measures passed in February 2011 and will help fund the facility needs of the District. The District began receiving funds in FY 2010-2011. Estimates received for the upcoming FY12 budget are \$16,858 Linn County and \$1,403,740.
- It is important to remember that despite the positive impact of financial reductions and an increase in certified enrollment, the District continues to monitor its fiscal practices and financial stability based on the current economy. In addition, the District continues to monitor staffing levels in relation to enrollment.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact District Treasurer and Business Manager, Solon Community School District, 301 S Iowa St, Solon, Iowa, 52333.

Basic Financial Statements

SOLON COMMUNITY SCHOOL DISTRICT
 Statement of Net Assets
 June 30, 2011

Exhibit A

| Assets | Governmental Activities | Business Type Activities | Total |
|---|----------------------------|-----------------------------|-------------------|
| Cash and cash equivalents | | | |
| Cash with fiscal agent | \$ 4,523,150 | \$ - | \$ 4,523,150 |
| Other | 5,617,431 | 319,589 | 5,937,020 |
| Receivables | | | |
| Property tax | | | |
| Delinquent | 47,916 | - | 47,916 |
| Succeeding year | 5,420,663 | - | 5,420,663 |
| Accounts receivable | 178,807 | - | 178,807 |
| Income surtax | 513,168 | - | 513,168 |
| Due from other governments | 280,600 | - | 280,600 |
| Due from other fund | - | 6,890 | 6,890 |
| Inventories | - | 3,210 | 3,210 |
| Non-depreciable capital assets | 2,981,190 | - | 2,981,190 |
| Capital assets, net of accumulated depreciation | 9,997,330 | 45,951 | 10,043,281 |
| Total assets | <u>29,560,255</u> | <u>375,640</u> | <u>29,935,895</u> |
| Liabilities | | | |
| Accounts payable | 897,636 | 11,576 | 909,212 |
| Salaries and benefits payable | 211,428 | 13,372 | 224,800 |
| Accrued interest payable | 115,500 | - | 115,500 |
| Due to other fund | 6,890 | - | 6,890 |
| Deferred revenue | | | |
| Succeeding year property tax | 5,420,663 | - | 5,420,663 |
| Long-term liabilities | | | |
| Portion due within one year | | | |
| General obligation bonds payable | 835,000 | - | 835,000 |
| Revenue bonds payable | 1,095,000 | - | 1,095,000 |
| Termination benefits payable | 58,373 | - | 58,373 |
| Compensated absences payable | 23,301 | - | 23,301 |
| Portion due after one year | | | |
| General obligation bonds payable | 5,480,000 | - | 5,480,000 |
| Revenue bonds payable | 4,810,000 | - | 4,810,000 |
| Termination benefits payable | 351,263 | - | 351,263 |
| Net OPEB liability | 100,398 | - | 100,398 |
| Total liabilities | <u>19,405,452</u> | <u>24,948</u> | <u>19,430,400</u> |

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT
 Statement of Net Assets
 June 30, 2011

Exhibit A

| | <u>Governmental Activities</u> | <u>Business Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|-----------------------------|
| Net Assets | | | |
| Invested in capital assets, net of related debt | \$ 7,073,520 | \$ 45,951 | \$ 7,119,471 |
| Restricted for | | | |
| Categorical funding | 200,891 | - | 200,891 |
| Physical plant and equipment | 947,298 | - | 947,298 |
| Debt service | 40,426 | - | 40,426 |
| Student activities | 154,488 | - | 154,488 |
| Unrestricted | <u>1,738,180</u> | <u>304,741</u> | <u>2,042,921</u> |
| Total net assets | <u><u>\$ 10,154,803</u></u> | <u><u>\$ 350,692</u></u> | <u><u>\$ 10,505,495</u></u> |

See notes to financial statements.

SOLOM COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2011

Exhibit B

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | |
|------------------------------------|------------------|----------------------|---|---|---|--------------------------|
| | Expenses | Charges for Services | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | Governmental Activities | Business Type Activities |
| | | | | | | |
| Governmental activities | | | | | | |
| Instruction | | | | | | |
| Regular instruction | \$ 5,578,465 | \$ 995,283 | \$1,047,236 | \$ - | \$ (3,535,946) | \$ - |
| Special instruction | 1,267,968 | 182,367 | 212,880 | - | (872,721) | - |
| Other instruction | 1,423,553 | 242,703 | 110,355 | - | (1,070,495) | - |
| | 8,269,986 | 1,420,353 | 1,370,471 | - | (5,479,162) | - |
| Support services | | | | | | |
| Student | 151,549 | - | - | - | (151,549) | - |
| Instructional staff | 537,543 | - | 8,046 | - | (529,497) | - |
| Administration | 1,400,295 | - | - | - | (1,400,295) | - |
| Operation and maintenance of plant | 1,202,534 | - | - | - | (1,202,534) | - |
| Transportation | 505,789 | 13,306 | 2,459 | - | (490,024) | - |
| | 3,797,710 | 13,306 | 10,505 | - | (3,773,899) | - |
| Other expenses | | | | | | |
| Facilities acquisition | 544,994 | - | - | - | (544,994) | - |
| Long-term debt interest | 492,024 | - | - | - | (492,024) | - |
| AEA flowthrough | 480,932 | - | 480,932 | - | - | - |
| Depreciation (unallocated) * | 544,383 | - | - | - | (544,383) | - |
| | 2,062,333 | - | 480,932 | - | (1,581,401) | - |
| Total governmental activities | 14,130,029 | 1,433,659 | 1,861,908 | - | (10,834,462) | - |

See notes to financial statements.

SOLO COMMUNITY SCHOOL DISTRICT
 Statement of Activities
 For the Year Ended June 30, 2011

Exhibit B

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | |
|---|------------------|-------------------------|--|--|--------------|
| | Expenses | Charges for Services | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | |
| <u>Functions/Programs (continued)</u> | | | | | |
| Business type activities | | | | | |
| Non-instructional programs | | | | | |
| Food service operations | \$ 474,991 | \$ 359,506 | \$ 84,794 | \$ - | \$ (30,691) |
| Before & After program | 283,607 | 339,739 | - | - | 56,132 |
| Preschool program | 51,557 | 60,458 | - | - | 8,901 |
| Total business type activities | 810,155 | 759,703 | 84,794 | - | 34,342 |
| Total | \$ 14,940,184 | \$ 2,193,362 | \$ 1,946,702 | \$ - | (10,800,120) |
| <u>General Revenues</u> | | | | | |
| Property tax levied for | | | | | |
| General purposes | | | | | |
| Debt service | | | | | |
| Capital outlay | | | | | |
| Statewide sales, services and use tax | | | | | |
| Unrestricted state grants | | | | | |
| Contributions and donations | | | | | |
| Unrestricted investment earnings | | | | | |
| Other | | | | | |
| Special item - loss on disposal of capital assets | | | | | |
| Total general revenues and special items | | | | | |
| Change in net assets | | | | | |
| Net assets, beginning of year | | | | | |
| Net assets, end of year | | | | | |

* This amount excludes the depreciation included in the direct expenses of the various programs.

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet
Governmental Funds
June 30, 2011

| | | Capital Projects | | | |
|--------------------------------------|--------------------|---------------------|------------------|--------------------|---------------------|
| | | Statewide | | Nonmajor | |
| | | Sales, Services | Debt | Governmental | |
| | <u>General</u> | <u>and Use Tax</u> | <u>Service</u> | <u>Funds</u> | <u>Total</u> |
| Assets | | | | | |
| Cash and pooled investments | \$2,211,766 | \$ 1,914,828 | \$148,177 | \$1,301,152 | \$ 5,575,923 |
| Cash with fiscal agent | - | 4,523,150 | - | - | 4,523,150 |
| Receivables | | | | | |
| Property tax | | | | | |
| Delinquent | 33,132 | - | 7,749 | 7,035 | 47,916 |
| Succeeding year | 3,840,974 | - | 727,019 | 852,670 | 5,420,663 |
| Accounts receivable | 174,174 | - | - | 4,633 | 178,807 |
| Income surtax | 513,168 | - | - | - | 513,168 |
| Due from other governments | 35,414 | 245,186 | - | - | 280,600 |
| Due from other funds | - | - | - | 201 | 201 |
| Total assets | <u>\$6,808,628</u> | <u>\$ 6,683,164</u> | <u>\$882,945</u> | <u>\$2,165,691</u> | <u>\$16,540,428</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 269,313 | \$ 595,541 | \$ - | \$ 32,782 | \$ 897,636 |
| Due to other fund | 1,823 | - | - | 5,268 | 7,091 |
| Salaries and benefits payable | 169,920 | - | - | - | 169,920 |
| Deferred revenue | | | | | |
| Succeeding year property tax | 3,840,974 | - | 727,019 | 852,670 | 5,420,663 |
| Income surtax | 513,168 | - | - | - | 513,168 |
| Other | 235,322 | - | - | - | 235,322 |
| Total liabilities | <u>5,030,520</u> | <u>595,541</u> | <u>727,019</u> | <u>890,720</u> | <u>7,243,800</u> |
| Fund balances | | | | | |
| Restricted for | | | | | |
| Categorical funding | 200,891 | - | - | - | 200,891 |
| School infrastructure | - | 6,087,623 | - | - | 6,087,623 |
| Debt service | - | - | 155,926 | - | 155,926 |
| Student activities | - | - | - | 154,488 | 154,488 |
| Management levy purposes | - | - | - | 173,185 | 173,185 |
| Physical plant and equipment | - | - | - | 947,298 | 947,298 |
| Unassigned | 1,577,217 | - | - | - | 1,577,217 |
| Total fund balances | <u>1,778,108</u> | <u>6,087,623</u> | <u>155,926</u> | <u>1,274,971</u> | <u>9,296,628</u> |
| Total liabilities and fund balances | <u>\$6,808,628</u> | <u>\$ 6,683,164</u> | <u>\$882,945</u> | <u>\$2,165,691</u> | <u>\$16,540,428</u> |

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2011

Exhibit D

| | |
|--|----------------------------|
| Total fund balances of governmental funds | \$ 9,296,628 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | 12,978,520 |
| Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. | 748,490 |
| Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. | (115,500) |
| Long-term liabilities, including bonds payable, compensated absences, early retirement, termination benefits and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds | <u>(12,753,335)</u> |
| Net assets of governmental activities | <u>\$10,154,803</u> |

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2011

Exhibit E

| | | Capital Projects | | | |
|------------------------------------|-------------------|---------------------|------------------|------------------|-------------------|
| | | Statewide | | Nonmajor | |
| | | Sales, Services | Debt | Governmental | |
| Revenues | <u>General</u> | <u>and Use Tax</u> | <u>Service</u> | <u>Funds</u> | <u>Total</u> |
| Local sources | | | | | |
| Local tax | \$ 4,114,756 | \$ 1,449,531 | \$ 790,746 | \$ 731,946 | \$ 7,086,979 |
| Tuition | 907,769 | - | - | - | 907,769 |
| Other | 194,031 | 33,152 | 2,280 | 518,043 | 747,506 |
| State sources | 5,873,363 | - | - | - | 5,873,363 |
| Federal sources | 838,435 | - | - | - | 838,435 |
| Total revenues | <u>11,928,354</u> | <u>1,482,683</u> | <u>793,026</u> | <u>1,249,989</u> | <u>15,454,052</u> |
| Expenditures | | | | | |
| Current | | | | | |
| Instruction | | | | | |
| Regular | 5,361,983 | - | - | - | 5,361,983 |
| Special | 1,216,630 | - | - | - | 1,216,630 |
| Other | 915,545 | - | - | 484,782 | 1,400,327 |
| | <u>7,494,158</u> | <u>-</u> | <u>-</u> | <u>484,782</u> | <u>7,978,940</u> |
| Support services | | | | | |
| Student | 150,722 | - | - | - | 150,722 |
| Instructional staff | 571,707 | - | - | - | 571,707 |
| Administration | 1,225,912 | - | - | 15,218 | 1,241,130 |
| Operation and maintenance of plant | 1,021,855 | - | - | 182,426 | 1,204,281 |
| Transportation | 428,133 | - | - | 9,751 | 437,884 |
| | <u>3,398,329</u> | <u>-</u> | <u>-</u> | <u>207,395</u> | <u>3,605,724</u> |
| Other expenditures | | | | | |
| Facilities acquisition | - | 3,331,141 | - | 53,465 | 3,384,606 |
| Long-term debt | | | | | |
| Principal | - | - | 6,585,000 | - | 6,585,000 |
| Interest and fiscal charges | - | - | 407,547 | - | 407,547 |
| AEA flowthrough | 480,932 | - | - | - | 480,932 |
| | <u>480,932</u> | <u>3,331,141</u> | <u>6,992,547</u> | <u>53,465</u> | <u>10,858,085</u> |
| Total expenditures | <u>11,373,419</u> | <u>3,331,141</u> | <u>6,992,547</u> | <u>745,642</u> | <u>22,442,749</u> |

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2011

Exhibit E

| | General | Capital Projects Statewide Sales, Services and Use Tax | Debt Service | Nonmajor Governmental Funds | Total |
|--|---------------------|--|-------------------|-----------------------------------|---------------------|
| Excess (deficiency) of revenues over (under) expenditures | \$ 554,935 | \$ (1,848,458) | \$ (6,199,521) | \$ 504,347 | \$ (6,988,697) |
| Other financing sources (uses) | | | | | |
| Discount on issuance of bonds | - | - | (40,639) | - | (40,639) |
| Accrued interest on sale of bonds | - | - | 81,233 | - | 81,233 |
| Proceeds from issuance of bonds | - | - | 6,060,000 | - | 6,060,000 |
| Premium on issuance of bonds | - | - | 1,628 | - | 1,628 |
| Interfund operating transfers in | - | - | 101,492 | - | 101,492 |
| Interfund operating transfers (out) | - | (101,492) | - | - | (101,492) |
| Total other financing sources (uses) | - | (101,492) | 6,203,714 | - | 6,102,222 |
| Net change in fund balances | 554,935 | (1,949,950) | 4,193 | 504,347 | (886,475) |
| Fund balance, beginning of year, as restated | 1,223,173 | 8,037,573 | 151,733 | 770,624 | 10,183,103 |
| Fund balance, end of year | <u>\$ 1,778,108</u> | <u>\$ 6,087,623</u> | <u>\$ 155,926</u> | <u>\$ 1,274,971</u> | <u>\$ 9,296,628</u> |

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances - Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2011

Exhibit F

Net change in fund balances - total governmental funds \$ (886,475)

**Amounts reported for governmental activities in the Statement of Activities
are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense are as follows:

| | | |
|------------------------------------|------------------|-----------|
| Expenditures for capital assets | \$ 3,115,245 | |
| Loss on disposal of capital assets | (16,253) | |
| Depreciation expense | <u>(892,107)</u> | 2,206,885 |

Certain revenues not collected for several months after year-end are not considered available revenue and are deferred in the governmental funds. (270,999)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

| | | |
|--------|------------------|---------|
| Issued | \$ (6,060,000) | |
| Repaid | <u>6,580,000</u> | 520,000 |

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

| | | |
|-------------------------------|-----------------|-----------|
| Early retirement | \$ (358,285) | |
| Compensated absences | (336) | |
| Other postemployment benefits | <u>(52,320)</u> | (410,941) |

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (38,838)

Change in net assets of governmental activities \$1,119,632

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT
 Statement of Net Assets
 Proprietary Funds
 June 30, 2011

Exhibit G

| | Business Type <u>Activities</u> Nonmajor <u>Enterprise</u> | Governmental <u>Activity</u> Internal <u>Service</u> |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | \$ 319,589 | \$ 41,508 |
| Due from other fund | 7,091 | - |
| Inventories | 3,210 | - |
| Capital assets, net of accumulated depreciation | <u>45,951</u> | <u>-</u> |
| Total assets | <u>375,841</u> | <u>41,508</u> |
| Liabilities | | |
| Accounts payable | 11,576 | - |
| Salaries and benefits payable | 13,372 | 41,508 |
| Due to other funds | <u>201</u> | <u>-</u> |
| Total liabilities | <u>25,149</u> | <u>41,508</u> |
| Net Assets | | |
| Invested in capital assets | 45,951 | - |
| Unrestricted | <u>304,741</u> | <u>-</u> |
| Total net assets | <u><u>\$ 350,692</u></u> | <u><u>\$ -</u></u> |

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT
 Statement of Revenues, Expenses and Changes in Net Assets
 Proprietary Funds
 For the Year Ended June 30, 2011

Exhibit H

| | Business Type |
|------------------------------------|-------------------------|
| | <u>Activities</u> |
| | <u>Nonmajor</u> |
| | <u>Enterprise</u> |
| Operating revenue | |
| Local sources | |
| Charges for service | <u>\$759,703</u> |
| Operating expenses | |
| Instruction | |
| Regular | |
| Salaries | 32,587 |
| Benefits | 16,038 |
| Supplies | <u>2,655</u> |
| | <u>51,280</u> |
| Support services | |
| Instructional staff | |
| Supplies | <u>2,088</u> |
| Administration | |
| Purchased services | 5,536 |
| Miscellaneous | <u>6,396</u> |
| | <u>11,932</u> |
| Operation and maintenance of plant | |
| Purchased services | <u>6,449</u> |
| Non-instructional programs | |
| Salaries | 371,274 |
| Benefits | 94,501 |
| Purchased services | 10,829 |
| Supplies | 252,716 |
| Depreciation | <u>9,086</u> |
| | <u>738,406</u> |
| Total operating expenses | <u>810,155</u> |
| Operating (loss) | <u>(50,452)</u> |
| Non-operating revenue | |
| Interest income | 1,748 |
| State sources | 4,201 |
| Federal sources | <u>80,593</u> |
| Total non-operating revenue | <u>86,542</u> |
| Net income | 36,090 |
| Net assets, beginning of year | <u>314,602</u> |
| Net assets, end of year | <u><u>\$350,692</u></u> |

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT
 Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2011

Exhibit I

| | Business Type Activities <u>Nonmajor Enterprise</u> |
|--|---|
| Cash flows from operating activities | |
| Cash received from sale of services | \$ 756,086 |
| Cash payments to employees for services | (516,990) |
| Cash payments to suppliers for goods and services | (284,809) |
| Net cash (used in) operating activities | <u>(45,713)</u> |
| Cash flows from non-capital financing activities | |
| State grants received | 4,201 |
| Federal grants received | 68,179 |
| Net cash provided by non-capital financing activities | <u>72,380</u> |
| Cash flows from capital and related financing activities | |
| Acquisition of capital assets | <u>(8,464)</u> |
| Cash flows from investing activities | |
| Interest on investments | <u>1,748</u> |
| Net increase in cash and cash equivalents | 19,951 |
| Cash and cash equivalents, beginning of year | 299,638 |
| Cash and cash equivalents, end of year | <u><u>\$ 319,589</u></u> |

**Reconciliation of operating (loss) to net cash
 (used in) operating activities**

| | |
|---|---------------------------|
| Operating (loss) | \$ (50,452) |
| Adjustments to reconcile operating (loss) to net cash (used in) operating activities | |
| Depreciation | 9,086 |
| Commodities used | 12,414 |
| Decrease in accounts receivable | 181 |
| (Increase) in inventory | (714) |
| (Increase) in due from other fund | (3,798) |
| (Decrease) in accounts payable | (372) |
| (Decrease) in due to other funds | (9,467) |
| (Decrease) in accrued salaries and benefits | (2,591) |
| Net cash (used in) operating activities | <u><u>\$ (45,713)</u></u> |

Non-cash investing, capital and related financing activities

During the year ended June 30, 2011 the District received \$12,414 of federal commodities.

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2011

Exhibit J

| | |
|-----------------------------|--|
| | Private Purpose Trust <u>Water Club</u> |
| Assets | |
| Cash and pooled investments | \$ 2,589 |
| Liabilities | |
| Accounts payable | <u>50</u> |
| Net assets | |
| Reserved for scholarships | <u><u>\$ 2,539</u></u> |

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT
 Statement of Changes in Fiduciary Net Assets
 Fiduciary Fund
 For the Year Ended June 30, 2011

Exhibit K

| | Private Purpose Trust <hr/> Water Club <hr/> |
|------------------------------------|---|
| Additions | |
| Local sources | |
| Contributions and donations | \$ 766 |
| Miscellaneous | <u>1,116</u> |
| Total additions | <u>1,882</u> |
| Deductions | |
| Support services | |
| Operation and maintenance of plant | 516 |
| Non-instructional programs | |
| Other enterprise operations | <u>2,151</u> |
| Total deductions | <u>2,667</u> |
| Change in net assets | (785) |
| Net assets, beginning of year | <u>3,324</u> |
| Net assets, end of year | <u><u>\$ 2,539</u></u> |

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011

Note 1. Summary of Significant Accounting Policies

The Solon Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally the District operates a before and after school program and a preschool program. The geographic area served includes the City of Solon, Iowa, and the agricultural territory in Johnson and Linn Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Solon Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Solon Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects - Statewide Sales, Services and Use Tax Fund is used to account for the collection of the 1% statewide sales and services tax to be expended for school infrastructure purposes.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports no major proprietary funds. However, it reports three nonmajor proprietary, enterprise funds. The School Nutrition Fund is used to account for the food service operations of the District, the Before & After School Fund is used to account before and after

school daycare operations of the District and the Preschool Fund is used to account for the preschool operations of the District. Additionally, the District reports a nonmajor proprietary internal service fund to account for employee flexible benefits.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund consists of the following:

The Private Purpose Trust Fund is used to account for assets held by the District which benefit individuals through various activities of the Water Club.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, compensated absences and termination benefits are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

The proprietary funds of the District apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on

the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 ½ % per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2010.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

| <u>Asset Class</u> | <u>Amount</u> |
|-----------------------------------|---------------|
| Land | \$ 2,500 |
| Buildings | \$ 2,500 |
| Improvements other than buildings | \$ 2,500 |
| Intangibles | \$25,000 |
| Furniture and equipment: | |
| School Nutrition Fund equipment | \$ 500 |
| Other furniture and equipment | \$ 2,500 |

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

| <u>Asset Class</u> | <u>Useful Life</u> |
|---------------------------|--------------------|
| Buildings | 50 years |
| Improvements to buildings | 20-50 years |
| Intangibles | 5-10 years |
| Furniture and equipment | 4-12 years |

Salaries and Benefits Payable - Payroll taxes withheld from paychecks and insurance benefits, which are payable in July and August, have been accrued as liabilities.

Termination Benefits - District employees meeting certain requirements are eligible for early retirement termination benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2011. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused sick leave for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements when employees resign or retire. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2011. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax and income surtax receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balance - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are

limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District first applies restricted resources.

Net assets restricted through enabling legislation include \$947,298 for physical plant and equipment, \$40,426 for debt service and \$154,488 for student activities.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

F. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Note 3. Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2011 is as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|--------------------------|--------------------------|-----------------|
| Nonmajor special revenue | Nonmajor Enterprise | |
| Student activities | School Nutrition | \$ 201 |
| Nonmajor Enterprise | | |
| Before & After Program | General | 1,823 |
| Nonmajor Enterprise | Nonmajor special revenue | |
| School Nutrition | Student activities | <u>5,268</u> |
| Total | | <u>\$ 7,292</u> |

These amounts are to reimburse for materials and supplies purchased from one fund to another. These amounts will be paid during the year ending June 30, 2012.

Note 4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

| <u>Transfer To</u> | <u>Transfer From</u> | <u>Amount</u> |
|---------------------------------------|----------------------|---------------|
| Capital Projects | | |
| Statewide sales, services and use tax | Debt service | \$ 101,492 |

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The transfers from the Statewide Sales, Services and Use Tax Fund to the Debt Service Fund were for payment of principal and interest on long-term debt.

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

| | Balance, Beginning of Year | Additions | Deletions | Balance, End of Year |
|--|----------------------------------|---------------------|-----------------------|----------------------------|
| <u>Governmental activities</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 600,427 | \$ - | \$ - | \$ 600,427 |
| Construction in progress | <u>1,050,321</u> | <u>2,847,861</u> | <u>(1,517,419)</u> | <u>2,380,763</u> |
| Total capital assets not being depreciated | <u>1,650,748</u> | <u>2,847,861</u> | <u>(1,517,419)</u> | <u>2,981,190</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 16,396,240 | - | - | 16,396,240 |
| Improvements other than buildings | 576,522 | 1,517,448 | - | 2,093,970 |
| Furniture and equipment | <u>2,457,180</u> | <u>267,384</u> | <u>(26,000)</u> | <u>2,698,564</u> |
| Total capital assets being depreciated | <u>19,429,942</u> | <u>1,784,832</u> | <u>(26,000)</u> | <u>21,188,774</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 8,151,890 | 388,700 | - | 8,540,590 |
| Improvements other than buildings | 421,145 | 188,473 | - | 609,618 |
| Furniture and equipment | <u>1,736,050</u> | <u>314,934</u> | <u>(9,748)</u> | <u>2,041,236</u> |
| Total accumulated depreciation | <u>10,309,085</u> | <u>892,107</u> | <u>(9,748)</u> | <u>11,191,444</u> |
| Total capital assets being depreciated, net | <u>9,120,857</u> | <u>892,725</u> | <u>(16,252)</u> | <u>9,997,330</u> |
| Governmental activities capital assets, net | <u>\$ 10,771,605</u> | <u>\$ 3,740,586</u> | <u>\$ (1,533,671)</u> | <u>\$ 12,978,520</u> |
| <u>Business type activities</u> | | | | |
| Furniture and equipment | \$ 90,898 | \$ 8,464 | \$ - | \$ 99,362 |
| Less accumulated depreciation | <u>44,326</u> | <u>9,086</u> | <u>-</u> | <u>53,412</u> |
| Business type activities capital assets, net | <u>\$ 46,572</u> | <u>\$ (622)</u> | <u>\$ -</u> | <u>\$ 45,950</u> |

Depreciation expense was charged to the following functions:

Governmental activities

| | |
|--|-------------------|
| Instruction | |
| Regular | \$ 25,588 |
| Special | 13,049 |
| Other | 38,372 |
| Support services | |
| Instructional staff | 164,017 |
| Administration | 13,128 |
| Operation and maintenance of plant | 21,727 |
| Transportation | 66,393 |
| Non-instructional programs | <u>5,450</u> |
| | 347,724 |
| Unallocated depreciation | <u>544,383</u> |
| Total governmental activities depreciation expense | <u>\$ 892,107</u> |

Business type activities

| | |
|-------------------------|-----------------|
| Food service operations | <u>\$ 9,086</u> |
|-------------------------|-----------------|

Note 6. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

| | Balance, Beginning of Year | Additions | Reductions | Balance, End of Year | Due Within One Year |
|--------------------------|----------------------------------|---------------------|---------------------|----------------------------|---------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 6,840,000 | \$ 6,060,000 | \$ 6,585,000 | \$ 6,315,000 | \$ 835,000 |
| Revenue bonds | 5,905,000 | - | - | 5,905,000 | 1,095,000 |
| Compensated absences | 22,965 | 23,301 | 22,965 | 23,301 | 23,301 |
| Early retirement | 51,351 | 409,636 | 51,351 | 409,636 | 58,373 |
| Net OPEB liability | <u>48,078</u> | <u>52,320</u> | <u>-</u> | <u>100,398</u> | <u>-</u> |
| Totals | <u>\$ 12,867,394</u> | <u>\$ 6,545,257</u> | <u>\$ 6,659,316</u> | <u>\$ 12,753,335</u> | <u>\$ 2,011,674</u> |

Interest costs incurred and charged to expense on all long-term debt was \$492,024 for the year ended June 30, 2011.

Early Retirement Termination Benefits

The District offers a voluntary early retirement plan to its certified and classified employees. Eligible employees must be at least age fifty-five and have completed fifteen years of continuous service to the District. Employees must complete an application, which is required to be approved by the Board of Education.

An employee who is granted voluntary early retirement benefits will be paid an amount equal to a percentage of their salary from the negotiated salary schedule between the District and the Solon Education Association in the last year of employment (exclusive of any extra-duty pay, extended contract pay and fringe benefits). Administrators shall be placed on the lane and step as if their years of experience were as teachers of the District. The percentage shall be calculated as four and two-tenths percent (4.2%) of the salary multiplied by the number of years of service as a professional licensed employee on a regular contract in the District. However, the maximum voluntary early retirement benefit shall be equal to the employee's salary from the salary schedule, exclusive of any extra-duty, extended contract pay and fringe benefits. Part-time employees shall receive a pro rata amount equal to the employee's full-time equivalency during the last year of employment. Early retirement paid during the year ended June 30, 2011 totaled \$51,351.

Bond Refunding

On April 11, 2011, the District issued \$6,060,000 of general obligation refunding bonds, with interest rates ranging from 1.75% to 3.10%, for a current refunding of the general obligation bonds issued February 1, 2006. The District called and paid \$5,795,000 of the 2006 bonds from the proceeds of the new issuance on May 12, 2011. The remaining \$255,000 of the 2006 issue were not available to be called and will be paid by the District during the year ending June 30, 2012.

The District refunded the bonds to reduce its total debt service payments by approximately \$397,897 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$367,996.

General Obligation Bonds

Details of the District's June 30, 2011 general obligation bonded indebtedness are as follows:

| Year Ending June 30, | 4-11-11 Issue | | | |
|----------------------------|-------------------|---------------------|-------------------|---------------------|
| | Interest Rates | Principal | Interest | Total |
| 2012 | 1.75% | \$ 580,000 | \$ 146,517 | \$ 726,517 |
| 2013 | 2.00% | 590,000 | 136,368 | 726,368 |
| 2014 | 2.25% | 610,000 | 124,567 | 734,567 |
| 2015 | 2.25% | 635,000 | 110,843 | 745,843 |
| 2016 | 2.50% | 655,000 | 96,555 | 751,555 |
| 2017-2021 | 2.50%-3.10% | <u>2,990,000</u> | <u>222,030</u> | <u>3,212,030</u> |
| Totals | | <u>\$ 6,060,000</u> | <u>\$ 836,880</u> | <u>\$ 6,896,880</u> |

Revenue Bonds

Details of the District's June 30, 2011 statewide sales, services and use tax revenue bonded indebtedness are as follows:

| Year Ending June 30, | | | | |
|----------------------------|-------------------|---------------------|-------------------|---------------------|
| | Interest Rates | Principal | Interest | Total |
| 2012 | 2.0% | \$ 1,095,000 | \$ 122,372 | \$ 1,217,372 |
| 2013 | 2.0% | 1,115,000 | 100,273 | 1,215,273 |
| 2014 | 2.0% | 780,000 | 81,322 | 861,322 |
| 2015 | 2.0% | 705,000 | 66,473 | 771,473 |
| 2016 | 2.0% | 720,000 | 51,142 | 771,142 |
| 2017-2018 | 2.75%-3.00% | <u>1,490,000</u> | <u>44,081</u> | <u>1,534,081</u> |
| Totals | | <u>\$ 5,905,000</u> | <u>\$ 465,663</u> | <u>\$ 6,370,663</u> |

The District has pledged future statewide sales, services and use tax revenues to repay the \$5,905,000 of bonds issued in April 2010. The bonds were issued for the purpose of financing a portion of the costs of a remodeling project. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2018. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual interest payments on the bonds are expected to require approximately 85 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$6,370,663. For the current year, interest of \$99,992 was paid on the bonds; however, no principal was paid on the bonds. Total statewide sales, services and use tax revenues were \$1,449,531 for the year ended June 30, 2011.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$590,500 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account.
- b) Proceeds of the bonds shall be deposited into the Project Account, which is to be used to finance the construction project. Interest earned by the Project Account shall remain in the Project Account and be spent in accordance with the resolution and applicable provisions of the Code.
- c) All proceeds from the statewide sales, services and use tax shall be placed in the Revenue Account.
- d) Monies in the Revenue Account shall be disbursed to make deposits into the Sinking Account to pay the principal and interest requirements of the revenue bonds.
- e) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.
- f) \$33,331 of the proceeds from issuance of the revenue bonds shall be deposited to the Sinking Account to be used solely for the purpose of paying principals and interest on the bonds if insufficient money is available in the Revenue Account.

Note 7. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Plan members were required to contribute 4.5%, 4.30% and 4.10 % of their annual covered salary and the District was required to contribute 6.95%, 6.65% and 6.35% of annual covered payroll for the years ended June 30, 2011, 2010 and 2009 respectively. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$486,146, \$423,765 and \$410,117, respectively, equal to the required contributions for each year.

Note 8. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 98 active members, of which ten elected no benefit, and five retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of the plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

| | |
|--|--------------------------|
| Annual required contribution | \$ 62,546 |
| Interest on net OPEB obligation | 1,202 |
| Adjustment to annual required contribution | <u>(4,875)</u> |
| Annual OPEB cost | 58,873 |
| Contributions made | <u>(6,553)</u> |
| Increase in net OPEB obligation | 52,320 |
| Net OPEB obligation beginning of year | <u>48,078</u> |
| Net OPEB obligation end of year | <u><u>\$ 100,398</u></u> |

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2011, the District contributed \$6,553 to the medical plan. Plan members eligible for benefits contributed nothing of the premium costs for the OPEB obligation.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

| <u>Year Ended June 30,</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|------------------------------------|-----------------------------|---|------------------------------------|
| 2010 | \$ 57,429 | 16.3% | \$ 48,078 |
| 2011 | 58,873 | -11.1% | \$ 100,398 |

Funded Status and Funding Progress – As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$367,354, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$367,354. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$6.8 million and the ratio of UAAL to covered payroll was 5.4%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 9. Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$480,932 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 11. Contingencies

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2011, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Note 12. Pending Litigation

At June 30, 2011, the District was involved in a case of pending litigation. It is difficult to estimate the outcome of the litigation and the potential damages, if any, involved. Therefore, no liability for potential payments has been calculated.

Note 13. Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2011 is comprised of the following programs:

| <u>Program</u> | |
|--|-------------------|
| Returning dropout and dropout prevention program | \$ 35,022 |
| Beginning teacher mentoring and induction program | 5,949 |
| Teacher salary supplement | 47,658 |
| Statewide voluntary preschool | 35,206 |
| Educator quality, professional development for model core curriculum | 20,235 |
| Educator quality, professional development | 46,567 |
| Other | <u>10,254</u> |
| | <u>\$ 200,891</u> |

Note 14. Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

| | <u>Capital Projects</u> | <u>Special Revenue</u> |
|---|---|---|
| | <u>Physical Plant and Equipment</u> | <u>Physical Plant and Equipment</u> |
| | <u>Levy</u> | <u>Levy</u> |
| Balances June 30, 2010, as previously reported | \$ - | \$ 486,451 |
| Change in fund type classification per implementation of GASB Statement No. 54 | <u>486,451</u> | <u>(486,451)</u> |
| Balances July 1, 2010, as restated | <u>\$486,451</u> | <u>\$ -</u> |

Note 15. New Governmental Accounting Standards Board (GASB) Statements

During the year ended June 30, 2011, the District implemented the following GASB statements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement improves the usefulness of information provided to financial report users about fund balances by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. Fund balance information is among the most widely and frequently used information in state and local government financial reports. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standard establishes a hierarchy of fund balance classification based primarily on the extent to which a government is bound to observe spending constraints. The District reclassified the fund balances for all governmental funds as a result of the implementation of this Statement.
- GASB Statement No. 59, *Financial Instruments Omnibus*. This Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investments pools. Specifically, this Statement provides financial reporting guidance by emphasizing the applicability of SEC requirements to certain external investments pool, addressing the applicability of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, and applying the reporting provisions for interest-earning investment contracts of GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*.

As of June 30, 2011, the GASB had issued several Statements not yet implemented by the District. The Statements which might impact the District are as follows:

- GASB Statement No. 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, an amendment of GASB Statement No. 43 and No. 45, issued January 2010, will be effective for the District beginning with its year ending June 30, 2012. This Statement addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve the financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. Specifically, this Statement improves financial reporting by establishing recognition, measurement, and disclosure requirements

SCAs for both transferors and government operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs.

- GASB Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, issued November 2010, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statement to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the criteria for blending also improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic.
- GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, issued January 2011, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncement issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports.
- GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, issued July 2011, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statement in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources,

liabilities deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.

- GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53), issued July 2011, will be effective for the District beginning with its year ending June 30, 2012. This Statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (a) the collectability of swap payments is considered to be probable, (b) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (c) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied.

The District’s management has not yet determined the effect these Statements will have on the District’s financial statements.

Required Supplementary Information

SOLON COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual
 All Governmental Funds and Enterprise Funds
 Required Supplementary Information
 For the Year Ended June 30, 2011

| | Governmental Funds <u>Actual</u> | Enterprise Funds <u>Actual</u> | Total <u>Actual</u> | Budgeted Amounts <u>Original</u> <u>Final</u> | Final to Actual Variance |
|---|--|--------------------------------------|------------------------|--|--------------------------------|
| Revenues | | | | | |
| Local sources | \$ 8,742,254 | \$761,451 | \$ 9,503,705 | \$9,106,171 | \$ 397,534 |
| State sources | 5,873,363 | 4,201 | 5,877,564 | 6,353,936 | (476,372) |
| Federal sources | 838,435 | 80,593 | 919,028 | 293,500 | 625,528 |
| Total revenues | <u>15,454,052</u> | <u>846,245</u> | <u>16,300,297</u> | <u>15,753,607</u> | <u>546,690</u> |
| Expenditures/Expenses | | | | | |
| Instruction | 7,978,940 | 51,280 | 8,030,220 | 7,846,220 | 512,180 |
| Support services | 3,605,724 | 20,469 | 3,626,193 | 4,261,224 | 389,057 |
| Non-instructional programs | - | 738,406 | 738,406 | 860,000 | 121,594 |
| Other expenditures | 10,858,085 | - | 10,858,085 | 9,457,107 | 2,091,915 |
| Total expenditures/expenses | <u>22,442,749</u> | <u>810,155</u> | <u>23,252,904</u> | <u>22,424,551</u> | <u>3,114,746</u> |
| Excess (deficiency) of revenues over (under) expenditures/expenses | (6,988,697) | 36,090 | (6,952,607) | (6,670,944) | 3,661,436 |
| Net other financing sources | <u>6,102,222</u> | <u>-</u> | <u>6,102,222</u> | <u>-</u> | <u>6,102,222</u> |
| Net change in fund balance | (886,475) | 36,090 | (850,385) | (6,670,944) | 9,763,658 |
| Balance, beginning of year | <u>10,183,103</u> | <u>314,602</u> | <u>10,497,705</u> | <u>10,128,347</u> | <u>369,358</u> |
| Balance, end of year | <u>\$ 9,296,628</u> | <u>\$350,692</u> | <u>\$ 9,647,320</u> | <u>\$3,457,403</u> | <u>\$10,133,016</u> |

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted two budget amendments, increasing budgeted expenditures by \$3,943,099.

SOLON COMMUNITY SCHOOL DISTRICT
 Schedule of Funding Progress for the
 Retiree Health Plan
 Required Supplementary Information

| Year Ended June 30, | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---------------------------|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 2010 | July 1, 2009 | \$ - | \$367,354 | \$367,354 | \$ - | \$6,806,546 | 5.4% |
| 2011 | July 1, 2009 | - | 367,354 | 367,354 | - | 6,854,466 | 5.4% |

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Other Supplementary Information

SOLON COMMUNITY SCHOOL DISTRICT
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2011

Schedule 1

| | <u>Special Revenue</u> | | <u>Capital Projects Physical Plant and Equipment</u> | |
|--------------------------------------|-----------------------------|----------------------------|--|--------------------|
| | <u>Student Activity</u> | <u>Management Levy</u> | <u>Levy</u> | <u>Total</u> |
| Assets | | | | |
| Cash and pooled investments | \$180,179 | \$175,466 | \$ 945,507 | \$1,301,152 |
| Receivables | | | | |
| Property tax | | | | |
| Delinquent | - | 1,955 | 5,080 | 7,035 |
| Succeeding year | - | 300,000 | 552,670 | 852,670 |
| Accounts receivable | 4,633 | - | - | 4,633 |
| Due from other funds | 201 | - | - | 201 |
| Total assets | <u>\$185,013</u> | <u>\$477,421</u> | <u>\$1,503,257</u> | <u>\$2,165,691</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 25,257 | \$ 4,236 | \$ 3,289 | \$ 32,782 |
| Due to other funds | 5,268 | - | - | 5,268 |
| Deferred revenue | | | | |
| Succeeding year property tax | - | 300,000 | 552,670 | 852,670 |
| Total liabilities | <u>30,525</u> | <u>304,236</u> | <u>555,959</u> | <u>890,720</u> |
| Fund balances | | | | |
| Restricted for | | | | |
| Student activities | 154,488 | - | - | 154,488 |
| Management levy purposes | - | 173,185 | - | 173,185 |
| Physical plant and equipment | - | - | 947,298 | 947,298 |
| Total fund balances | <u>154,488</u> | <u>173,185</u> | <u>947,298</u> | <u>1,274,971</u> |
| Total liabilities and fund balances | <u>\$185,013</u> | <u>\$477,421</u> | <u>\$1,503,257</u> | <u>\$2,165,691</u> |

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2011

Schedule 2

| | <u>Special Revenue</u> | | <u>Capital Projects Physical Plant and Equipment</u> | |
|---|-----------------------------|----------------------------|--|--------------------|
| | <u>Student Activity</u> | <u>Management Levy</u> | <u>Levy</u> | <u>Total</u> |
| Revenues | | | | |
| Local sources | | | | |
| Local taxes | \$ - | \$ 213,531 | \$518,415 | \$ 731,946 |
| Other | <u>501,607</u> | <u>13,883</u> | <u>2,553</u> | <u>518,043</u> |
| Total revenues | <u>501,607</u> | <u>227,414</u> | <u>520,968</u> | <u>1,249,989</u> |
| Expenditures | | | | |
| Current | | | | |
| Instruction | | | | |
| Other | <u>484,782</u> | <u>-</u> | <u>-</u> | <u>484,782</u> |
| Support services | | | | |
| Administration | - | 15,218 | - | 15,218 |
| Operation and maintenance of plant | 12,636 | 163,134 | 6,656 | 182,426 |
| Transportation | <u>-</u> | <u>9,751</u> | <u>-</u> | <u>9,751</u> |
| Total support services | <u>12,636</u> | <u>188,103</u> | <u>6,656</u> | <u>207,395</u> |
| Other expenditures | | | | |
| Facilities acquisition | <u>-</u> | <u>-</u> | <u>53,465</u> | <u>53,465</u> |
| Total expenditures | <u>497,418</u> | <u>188,103</u> | <u>60,121</u> | <u>745,642</u> |
| Net change in fund balances | 4,189 | 39,311 | 460,847 | 504,347 |
| Fund balances, beginning of year, as restated | <u>150,299</u> | <u>133,874</u> | <u>486,451</u> | <u>770,624</u> |
| Fund balances, end of year | <u>\$154,488</u> | <u>\$ 173,185</u> | <u>\$947,298</u> | <u>\$1,274,971</u> |

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Combining Statement of Net Assets
 Nonmajor Enterprise Funds
 June 30, 2011

Schedule 3

| | <u>School Nutrition</u> | <u>Before & After</u> | <u>Preschool</u> | <u>Total</u> |
|---|-----------------------------|-------------------------------|------------------|------------------|
| Assets | | | | |
| Cash and cash equivalents | \$120,544 | \$159,261 | \$39,784 | \$319,589 |
| Due from other fund | 5,268 | - | 1,823 | 7,091 |
| Inventories | 3,210 | - | - | 3,210 |
| Capital assets, net of accumulated depreciation | 45,951 | - | - | 45,951 |
| Total assets | <u>174,973</u> | <u>159,261</u> | <u>41,607</u> | <u>375,841</u> |
| Liabilities | | | | |
| Accounts payable | 134 | 11,442 | - | 11,576 |
| Salaries and benefits payable | 8,281 | 2,261 | 2,830 | 13,372 |
| Due to other funds | 201 | - | - | 201 |
| Total liabilities | <u>8,616</u> | <u>13,703</u> | <u>2,830</u> | <u>25,149</u> |
| Net Assets | | | | |
| Invested in capital assets | 45,951 | - | - | 45,951 |
| Unrestricted | 120,406 | 145,558 | 38,777 | 304,741 |
| Total net assets | <u>\$166,357</u> | <u>\$145,558</u> | <u>\$38,777</u> | <u>\$350,692</u> |

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
 Nonmajor Enterprise Funds
 For the Year Ended June 30, 2011

Schedule 4

| | School <u>Nutrition</u> | Before & <u>After</u> | <u>Preschool</u> | <u>Total</u> |
|------------------------------------|----------------------------|--------------------------|------------------|-------------------|
| Operating revenue | | | | |
| Local sources | | | | |
| Charges for service | \$ 359,506 | \$ 339,739 | \$ 60,458 | \$ 759,703 |
| Operating expenses | | | | |
| Instruction | | | | |
| Regular | | | | |
| Salaries | - | - | 32,587 | 32,587 |
| Benefits | - | - | 16,038 | 16,038 |
| Supplies | - | - | 2,655 | 2,655 |
| | <u>-</u> | <u>-</u> | <u>51,280</u> | <u>51,280</u> |
| Support services | | | | |
| Instructional staff | | | | |
| Supplies | - | 2,088 | - | 2,088 |
| | <u>-</u> | <u>2,088</u> | <u>-</u> | <u>2,088</u> |
| Administration | | | | |
| Purchased services | 134 | 5,402 | - | 5,536 |
| Miscellaneous | 4,333 | 1,786 | 277 | 6,396 |
| | <u>4,467</u> | <u>7,188</u> | <u>277</u> | <u>11,932</u> |
| Operation and maintenance of plant | | | | |
| Purchased services | 5,973 | 476 | - | 6,449 |
| | <u>5,973</u> | <u>476</u> | <u>-</u> | <u>6,449</u> |
| Non-instructional programs | | | | |
| Food service operations | | | | |
| Salaries | 181,794 | 189,480 | - | 371,274 |
| Benefits | 63,230 | 31,271 | - | 94,501 |
| Purchased services | - | 10,829 | - | 10,829 |
| Supplies | 210,441 | 42,275 | - | 252,716 |
| Depreciation | 9,086 | - | - | 9,086 |
| | <u>464,551</u> | <u>273,855</u> | <u>-</u> | <u>738,406</u> |
| Total operating expenses | <u>474,991</u> | <u>283,607</u> | <u>51,557</u> | <u>810,155</u> |
| Operating income (loss) | <u>(115,485)</u> | <u>56,132</u> | <u>8,901</u> | <u>(50,452)</u> |
| Non-operating revenue | | | | |
| Interest income | 1,312 | 339 | 97 | 1,748 |
| State sources | 4,201 | - | - | 4,201 |
| Federal sources | 80,593 | - | - | 80,593 |
| | <u>86,106</u> | <u>339</u> | <u>97</u> | <u>86,542</u> |
| Total non-operating revenue | <u>86,106</u> | <u>339</u> | <u>97</u> | <u>86,542</u> |
| Net income (loss) | (29,379) | 56,471 | 8,998 | 36,090 |
| Net assets, beginning of year | 195,736 | 89,087 | 29,779 | 314,602 |
| Net assets, end of year | <u>\$ 166,357</u> | <u>\$ 145,558</u> | <u>\$ 38,777</u> | <u>\$ 350,692</u> |

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Combining Statement of Cash Flows
 Nonmajor Enterprise Funds
 For the Year Ended June 30, 2011

Schedule 5

| | <u>School Nutrition</u> | <u>Before & After</u> | <u>Preschool</u> | <u>Total</u> |
|--|-----------------------------|-------------------------------|------------------|-------------------|
| Cash flows from operating activities | | | | |
| Cash received from sale of services | \$ 357,712 | \$ 339,739 | \$ 58,635 | \$ 756,086 |
| Cash payments to employees for services | (245,171) | (221,575) | (50,244) | (516,990) |
| Cash payments to suppliers for goods and services | (212,549) | (68,490) | (3,770) | (284,809) |
| Net cash provided by (used in) operating activities | <u>(100,008)</u> | <u>49,674</u> | <u>4,621</u> | <u>(45,713)</u> |
| Cash flows from non-capital financing activities | | | | |
| State grants received | 4,201 | - | - | 4,201 |
| Federal grants received | 68,179 | - | - | 68,179 |
| Net cash provided by non-capital financing activities | <u>72,380</u> | <u>-</u> | <u>-</u> | <u>72,380</u> |
| Cash flows from capital and related financing activities | | | | |
| Acquisition of capital assets | (8,464) | - | - | (8,464) |
| Cash flows from investing activities | | | | |
| Interest on investments | 1,312 | 339 | 97 | 1,748 |
| Net increase (decrease) in cash and cash equivalents | (34,780) | 50,013 | 4,718 | 19,951 |
| Cash and cash equivalents, beginning of year | 155,324 | 109,248 | 35,066 | 299,638 |
| Cash and cash equivalents, end of year | <u>\$ 120,544</u> | <u>\$ 159,261</u> | <u>\$ 39,784</u> | <u>\$ 319,589</u> |

**Reconciliation of operating income (loss) to net cash
 provided by (used in) operating activities**

| | | | | |
|--|---------------------|------------------|-----------------|--------------------|
| Operating income (loss) | \$ (115,485) | \$ 56,132 | \$ 8,901 | \$ (50,452) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities | | | | |
| Depreciation | 9,086 | - | - | 9,086 |
| Commodities used | 12,414 | - | - | 12,414 |
| Decrease in accounts receivable | 181 | - | - | 181 |
| (Increase) in inventory | (714) | - | - | (714) |
| (Increase) in due from other fund | (1,975) | - | (1,823) | (3,798) |
| Increase (decrease) in accounts payable | (3,568) | 3,362 | (166) | (372) |
| Increase (decrease) in due to other funds | 201 | (8,996) | (672) | (9,467) |
| (Decrease) in accrued salaries and benefits | (148) | (824) | (1,619) | (2,591) |
| Net cash provided by (used in) operating activities | <u>\$ (100,008)</u> | <u>\$ 49,674</u> | <u>\$ 4,621</u> | <u>\$ (45,713)</u> |

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2011 the District received \$12,414 of federal commodities.

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 For the Year Ended June 30, 2011

Schedule 6

| Account | Balance, Beginning of Year | Revenues | Expenditures | Intrafund Transfers | Balance, End of Year |
|------------------------------|----------------------------------|-----------|--------------|------------------------|----------------------------|
| Drama | \$ 4,266 | \$ 12,659 | \$ 7,550 | \$ - | \$ 9,375 |
| Yearbook | 10,267 | 7,520 | 6,871 | - | 10,916 |
| MS yearbook | 2,087 | 4,440 | 4,464 | - | 2,063 |
| Fine arts | 1,711 | 7,474 | 4,770 | - | 4,415 |
| Honors English | 45 | - | - | - | 45 |
| Win With Reading | 60 | - | - | - | 60 |
| Media Center | - | 1,266 | 744 | - | 522 |
| Mock Trial | 233 | - | - | - | 233 |
| Speech | 1,875 | 314 | 69 | - | 2,120 |
| All athletics | - | 200,155 | 200,114 | (41) | - |
| Athletic director/facilities | 1 | - | - | - | 1 |
| Soccer | - | 1,430 | 1,765 | 335 | - |
| Cross country | 1,554 | 4,979 | 4,220 | 541 | 2,854 |
| Football | 9,885 | 17,958 | 15,732 | (618) | 11,493 |
| Boys basketball | 89 | 385 | 60 | - | 414 |
| Baseball | 6,480 | 48,239 | 52,370 | (690) | 1,659 |
| Boys track | 2,307 | 5,811 | 6,400 | - | 1,718 |
| Boys golf | - | 5,778 | 4,703 | (26) | 1,049 |
| Wrestling | 3,450 | 4,627 | 5,215 | 25 | 2,887 |
| Girls basketball | 1,240 | 3,637 | 3,140 | 181 | 1,918 |
| Volleyball | - | - | - | - | - |
| Girls soccer | 1,211 | 5,897 | 4,729 | - | 2,379 |
| Softball | 7,507 | 20,819 | 19,021 | - | 9,305 |
| Girls track | 7,395 | 2,411 | 6,721 | 14 | 3,099 |
| Girls golf | - | 220 | 381 | 161 | - |
| Book A Birthday | 2 | - | - | - | 2 |
| Registration | 4,149 | 101 | - | - | 4,250 |
| High school activities | 1,267 | 5,571 | 5,396 | - | 1,442 |
| Padlocks | 311 | 10 | - | - | 321 |
| Lakeview activities | 189 | 1,466 | 1,066 | - | 589 |
| Art for education | 1 | - | - | - | 1 |
| Lakeview pictures | 705 | 461 | 504 | - | 662 |
| Concessions | 5,478 | 20,308 | 16,294 | - | 9,492 |
| Petty cash | 43 | - | - | - | 43 |

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 For the Year Ended June 30, 2011

Schedule 6

| Account | Balance, Beginning of Year | Revenues | Expenditures | Intrafund Transfers | Balance, End of Year |
|--------------------------------|----------------------------------|----------|--------------|------------------------|----------------------------|
| High school pictures | \$ 10,966 | \$ 663 | \$ - | \$ (538) | \$ 11,091 |
| Computer training classes | 1,545 | - | - | - | 1,545 |
| Summer enrichment | 117 | 2,165 | 2,006 | - | 276 |
| Middle School band resale | 1,683 | 2,831 | 2,756 | - | 1,758 |
| Middle school student supplies | 919 | 377 | - | - | 1,296 |
| Middle school activities | 159 | 2,429 | 2,514 | - | 74 |
| District-wide activities | 3,482 | 685 | 1,230 | - | 2,937 |
| HS Spartan Fund Run | 2 | - | - | - | 2 |
| HS robotics club | 1,355 | 1,800 | 3,143 | - | 12 |
| Close-up | 206 | - | - | - | 206 |
| Spanish club | 3,237 | 3,222 | 87 | - | 6,372 |
| Flag corps | 1 | 1,240 | 631 | - | 610 |
| Lakeview student council | 9 | - | - | - | 9 |
| High school student council | 362 | 1,415 | 2,315 | 538 | - |
| Junior high student council | 16,306 | 10,077 | 18,148 | - | 8,235 |
| School store | 40 | - | - | - | 40 |
| National Honor Society | 188 | 728 | 778 | - | 138 |
| Peer council | 320 | 236 | - | - | 556 |
| Band | 1,696 | 16,599 | 16,046 | - | 2,249 |
| HS Cheerleading | 1,273 | 3,184 | 2,157 | - | 2,300 |
| SADD | 599 | 370 | 963 | - | 6 |
| 30 days to fitness | 32 | - | - | - | 32 |
| Environmental club | 615 | - | - | - | 615 |
| YAC | - | 564 | - | - | 564 |
| Dance team | 49 | 18,793 | 18,138 | - | 704 |
| Science/math boosters | 5 | - | - | - | 5 |
| Vocal music | 527 | 7,662 | 7,780 | - | 409 |
| MS cheerleading | 5,818 | - | - | - | 5,818 |
| MS dance team | 194 | 945 | - | - | 1,139 |
| "You Can Do It" group | 2,142 | - | - | - | 2,142 |
| HS show choir | 907 | 15,529 | 14,142 | - | 2,294 |
| CMGRP INC | 10,787 | - | 10,905 | 118 | - |
| Pro Life Reserved | 24 | 31 | - | - | 55 |
| LC Community Involvement | - | 16 | - | - | 16 |

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 For the Year Ended June 30, 2011

Schedule 6

| Account | Balance, Beginning of Year | Revenues | Expenditures | Intrafund Transfers | Balance, End of Year |
|------------------------------|----------------------------------|-------------------|-------------------|------------------------|----------------------------|
| MS show choir | \$ 28 | \$ 12,325 | \$ 8,596 | \$ - | \$ 3,757 |
| Senior class | 2,484 | 1,616 | 1,119 | - | 2,981 |
| Junior class | 1,173 | 10,804 | 9,890 | - | 2,087 |
| HS wrestling cheerleaders | 2,164 | 1,240 | 1,775 | - | 1,629 |
| FBLA | 263 | 125 | - | - | 388 |
| Graduate class contributions | 4,814 | - | - | - | 4,814 |
| Totals | <u>\$ 150,299</u> | <u>\$ 501,607</u> | <u>\$ 497,418</u> | <u>\$ -</u> | <u>\$ 154,488</u> |

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Eight Years

| | Modified Accrual Basis | | | | | | | |
|------------------------------------|------------------------|---------------------|---------------------|---------------------|----------------------|---------------------|--------------------|--------------------|
| | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Revenues | | | | | | | | |
| Local sources | | | | | | | | |
| Local tax | \$ 7,086,979 | \$ 6,696,782 | \$ 6,317,275 | \$ 6,096,403 | \$ 4,681,730 | \$ 4,284,269 | \$ 4,168,992 | \$ 4,016,863 |
| Tuition | 907,769 | 701,227 | 597,989 | 454,727 | 455,383 | 369,739 | 414,282 | 460,436 |
| Other | 747,506 | 707,657 | 545,908 | 605,667 | 561,951 | 581,774 | 478,405 | 428,773 |
| State sources | 5,873,363 | 5,027,367 | 5,962,340 | 5,769,420 | 5,291,614 | 5,019,959 | 4,681,941 | 4,367,205 |
| Federal sources | 838,435 | 429,159 | 196,169 | 205,620 | 261,185 | 185,326 | 160,999 | 159,255 |
| Total revenues | <u>\$15,454,052</u> | <u>\$13,562,192</u> | <u>\$13,619,681</u> | <u>\$13,131,837</u> | <u>\$ 11,251,863</u> | <u>\$10,441,067</u> | <u>\$9,904,619</u> | <u>\$9,432,532</u> |
| Expenditures | | | | | | | | |
| Current | | | | | | | | |
| Instruction | | | | | | | | |
| Regular | \$ 5,361,983 | \$ 4,890,205 | \$ 4,915,440 | \$ 4,507,086 | \$ 4,312,966 | \$ 3,912,378 | \$ 3,522,375 | \$ 3,367,391 |
| Special | 1,216,630 | 1,422,014 | 1,410,146 | 1,332,183 | 1,199,336 | 1,161,030 | 968,611 | 955,782 |
| Other | 1,400,327 | 990,784 | 788,476 | 798,361 | 758,279 | 714,789 | 882,212 | 646,890 |
| Support services | | | | | | | | |
| Student | 150,722 | 129,267 | 112,984 | 129,669 | 138,969 | 138,911 | 133,370 | 170,130 |
| Instructional staff | 571,707 | 461,454 | 565,697 | 595,483 | 637,501 | 597,467 | 471,260 | 598,890 |
| Administration | 1,241,130 | 1,200,426 | 1,148,097 | 1,123,161 | 1,095,277 | 1,023,438 | 950,958 | 874,969 |
| Operation and maintenance of plant | 1,204,281 | 1,192,543 | 1,222,444 | 1,210,421 | 1,175,993 | 1,195,883 | 1,196,049 | 945,915 |
| Transportation | 437,884 | 549,644 | 436,254 | 391,206 | 343,888 | 427,022 | 414,093 | 467,611 |
| Non-instructional programs | - | - | - | - | - | - | 1,879 | 18,872 |
| Other expenditures | | | | | | | | |
| Facilities acquisition | 3,384,606 | 1,382,411 | 255,744 | 363,038 | 340,888 | 121,754 | - | 191,307 |
| Long-term debt | | | | | | | | |
| Principal | 6,585,000 | 510,000 | 570,000 | 555,000 | 530,000 | 1,875,000 | 523,085 | 489,303 |
| Interest and other charges | 407,547 | 362,345 | 301,343 | 322,005 | 341,631 | 561,060 | 476,575 | 496,359 |
| AEA flowthrough | 480,932 | 465,297 | 424,170 | 400,315 | 367,758 | 340,963 | 321,428 | 310,846 |
| Total expenditures | <u>\$22,442,749</u> | <u>\$13,556,390</u> | <u>\$12,150,795</u> | <u>\$11,727,928</u> | <u>\$ 11,242,486</u> | <u>\$12,069,695</u> | <u>\$9,861,895</u> | <u>\$9,534,265</u> |

SOLON COMMUNITY SCHOOL DISTRICT
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2011

Schedule 8

| Grantor/Program | CFDA | Grant | Expenditures |
|---|--------|--------|-------------------|
| Indirect | Number | Number | |
| U.S. Department of Agriculture | | | |
| Iowa Department of Education | | | |
| School Nutrition Cluster Programs | | | |
| School Breakfast Program | 10.553 | FY11 | \$ 4,750 |
| National School Lunch Program | 10.555 | FY11 | 75,843 * |
| Total Department of Agriculture | | | <u>80,593</u> |
| U.S. Department of Education | | | |
| Iowa Department of Education | | | |
| Title I, Part A Cluster | | | |
| Title I Grants to Local Educational Agencies | 84.010 | FY11 | 15,904 |
| Impact Aid | 84.041 | FY11 | 67,000 |
| Vocational Education - Basic Grants to States | 84.048 | FY11 | 5,120 |
| Improving Teacher Quality State Grants | 84.367 | FY11 | 18,697 |
| Grants for State Assessments and Related Activities | 84.369 | FY11 | 8,045 |
| ARRA - State Fiscal Stabilization Fund (SFSF) - | | | |
| Education State Grants, State Aid | 84.394 | FY11 | 423,681 |
| ARRA - State Fiscal Stabilization Fund (SFSF) - | | | |
| Education State Grants, Teacher Professional Development | 84.394 | FY11 | 4,166 |
| ARRA - State Fiscal Stabilization Fund (SFSF) - | | | |
| Education State Grants, Instructional Support | 84.394 | FY11 | 37,693 |
| Total ARRA - State Fiscal Stabilization Fund | | | <u>465,540</u> |
| ARRA - State Fiscal Stabilization Fund (SFSF) - | | | |
| Government Services, Recovery Act | 84.397 | FY11 | 54,493 |
| Total Iowa Department of Education | | | <u>634,799</u> |
| Grant Wood Area Education Agency | | | |
| Special Education-Grants to States | 84.027 | FY11 | 57,422 ** |
| ARRA - Special Education Grants to States, Recovery Act | 84.391 | FY11 | 112,994 ** |
| Total Area Education Agency | | | <u>170,416</u> |
| Total Department of Education | | | <u>805,215</u> |
| Department of Health and Human Services, Centers for Disease Control and Prevention | | | |
| Cooperative Agreement to Support Comprehensive School | | | |
| Health Programs to Prevent the Spread of HIV and Other | | | |
| Important Health Problems | 93.938 | FY11 | 420 |
| Total federal awards | | | <u>\$ 886,228</u> |

* Include \$12,414 of non-cash awards

** Total for Special Education Cluster (IDEA) is \$170,416

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Solon Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

119 West Mississippi Drive Suite3

Muscatine, Iowa 52761

563-264-1385

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Education
Solon Community School District

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Solon Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated March 1, 2012. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Solon Community School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of Solon Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Solon Community School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses and other deficiencies I consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Questioned Costs as items II-A-11 through II-G-11 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Solon Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Solon Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I have expressed my conclusions on the District's responses, I did not audit Solon Community School District's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Solon Community School District and other parties to whom Solon Community School District may report, including federal awarding agencies and other pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Solon Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Kay L. Chapman, CPA PC
March 1, 2012

KAY L. CHAPMAN, CPA PC

119 West Mississippi Drive Suite 3

Muscataine, Iowa 52761

563-264-1385

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education
Solon Community School District

Compliance

I have audited the compliance of Solon Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Solon Community School District's major federal programs for the year ended June 30, 2011. Solon Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Solon Community School District's management. My responsibility is to express an opinion on Solon Community School District's compliance based on my audit.

I conducted my audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Solon Community School District's compliance with those requirements and performing such other procedures as I consider necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Solon Community School District's compliance with those requirements.

In my opinion, Solon Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Solon Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws,

regulations, contracts and grant agreements applicable to federal programs. In planning and performing my audit, I considered Solon Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Solon Community School District's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, I identified deficiencies in internal control over compliance I consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of the control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-A-11, III-B-11 and III-C-11 to be material weaknesses.

Solon Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I have expressed my conclusions on the District's responses, I did not audit Solon Community School District's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Solon Community School District and other parties to whom Solon Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Kay L. Chapman, CPA PC
March 1, 2012

SOLON COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Part I. Summary of the Independent Auditor's Results

1. Unqualified opinions were issued on the financial statements.
2. A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
3. The audit did not disclose any non-compliance which is material to the financial statements.
4. A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
5. An unqualified opinion was issued on compliance with requirements applicable to each major program.
6. The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
7. Major programs were as follows:
 - Clustered programs:
 - CFDA Number 84.391 ARRA – Special Education Grants to States, Recovery Act
 - CFDA Number 84.394 ARRA – State Fiscal Stabilization Fund
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. Solon Community School District did not qualify as a low-risk auditee.

SOLON COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Part II. Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES

II-A-11 Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities. I noted that the same individual performs the following duties: recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although I noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the District to obtain the maximum internal control possible under the circumstances.

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

II-B-11 Financial Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time, District personnel do not have the skills necessary to prepare the District's financial statements and related note disclosures in compliance with generally accepted accounting principles (GAAP). This is not an unusual situation for small governmental entities.

Recommendation - The business manager should consider obtaining additional GAAP training through reading relevant accounting literature and/or attending professional education courses. Since GAAP reporting and disclosures change constantly, the business manager should consider taking training annually to stay up-to-date on GAAP reporting and disclosure requirements. The District should also obtain current governmental accounting, reporting and disclosure reference materials and update them as new pronouncements become effective.

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We certainly understand the need for continuing education classes for all of our staff,

SOLON COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

including the business manager. However, we have a limited budget and must continually prioritize needs. We will investigate alternatives, but believe that it would not be an efficient use of District funds to get and maintain the necessary training for the business manager to comply with this recommendation. Nor do we consider hiring additional staff possessing these skills to be a feasible option.

Conclusion - Response accepted.

II-C-11 Cash Handling Procedures - The District has adopted procedures for properly Handling, depositing and recording cash received. It was noted that these procedures are not always being followed at the Middle School Office.

Recommendation - Monies received by all employees needs to be counted by and a duplicate receipt prepared by the employee who receives it. Copies of the receipts, along with the monies received, should be remitted daily or weekly, depending upon the amount, to the person responsible for making the bank deposit. Any undeposited monies should be kept in a locked safe until being deposited. The District should ensure that all adopted procedures are followed by all District personnel.

Response - We will review our procedures for money handling, depositing and recording and ensure that all employees are aware of and follow the adopted procedures.

Conclusion - Response accepted.

II-D-11 Approval of Purchase Orders - It was noted that the Activities Director authorized his own purchase orders on several occasions.

Recommendation - The District should review their procedures for preparation and authorization of purchase orders and ensure that purchase orders prepared by an administrator are authorized by an administrator other than the one who prepared the purchase order. This provides better oversight and checks and balances than allowing administrators to authorize their own purchase orders.

Response - We will review and revise our procedures and policies, as recommended.

Conclusion - Response accepted.

II-E-11 Accounting for Gate Receipts - The District does not use a ticket system to account for the receipts from all extracurricular activities that charge an admission nor do they reconcile the number of tickets sold to the cash collected.

SOLON COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Recommendation - A ticket system for all extracurricular activities should be implemented by the district. Tickets should be taken at all district events charging admission. The district should also implement appropriate controls over this procedure. At the end of each event, the cash collected should be counted by two individuals and should be reconciled to the number of tickets sold. This reconciliation should be signed by the individuals responsible for counting the cash. This reconciliation should also match the bank deposit slip.

Response - A system of ticket collection has been initiated; however, it is not used for all extracurricular events. We will incorporate the ticket system for all events, as recommended.

Conclusion - Response accepted.

II-F-11 Material Misstatement not Detected - During the course of my audit, I discovered material misstatements on the District's Certified Annual Report (CAR) that were not detected by the District's internal controls. The District did not accrue the retainage liability and expenditure in the Capital Projects - Statewide Sales, Services and Use Tax Fund on its CAR filed with the Iowa Department of Education. This misstatement will result in a correction to the beginning balance of the Capital Projects - Statewide Sales, Services and Use Tax Fund on next year's CAR.

Recommendation - An effective system of internal control should detect material misstatements in the District's financial records and financial reporting. The District should review their control procedures and make appropriate changes to improve their internal controls to help eliminate this deficiency.

Response - We feel that our business manager has the knowledge needed to adequately perform her duties. The superintendent reviews some, but not all of the work performed and reports prepared by the business manager. We would like to hire additional office personnel to help with the business manager's workload and to provide more oversight and cross-checking of her work. However, with a limited budget, it is difficult to hire enough adequately-trained office personnel to review each other's work. We will review our procedures and consider making changes we deem necessary.

Conclusion - Response accepted.

SOLON COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

II-G-11 Questionable Expenditures - There were several expenditures in the Student Activity Fund that were not supported by proper invoices or documentation. Because of this, I could not determine the allowability or proper coding of the expenditures.

Recommendation - The District should ensure that no expenditures are made without proper supporting documents that are approved by the appropriate authorized administrator.

Response - We will ensure that all expenditures have proper supporting documentation and approval, as recommended.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

Part III. Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCY

CFDA Number 84.391 ARRA – Special Education Grants to States, Recovery Act
CFDA Number 84.394 ARRA – State Fiscal Stabilization Fund
Federal Award Year: 2011
U.S. Department of Education
Passed through the Iowa Department of Education

II-A-11 Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities. I noted that the same individual performs the following duties: recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although I noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

SOLON COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the District to obtain the maximum internal control possible under the circumstances.

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

II-B-11 Financial Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time, District personnel do not have the skills necessary to prepare the District's financial statements and related note disclosures in compliance with generally accepted accounting principles (GAAP). This is not an unusual situation for small governmental entities.

Recommendation - The business manager should consider obtaining additional GAAP training through reading relevant accounting literature and/or attending professional education courses. Since GAAP reporting and disclosures change constantly, the business manager should consider taking training annually to stay up-to-date on GAAP reporting and disclosure requirements. The District should also obtain current governmental accounting, reporting and disclosure reference materials and update them as new pronouncements become effective.

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We certainly understand the need for continuing education classes for all of our staff, including the business manager. However, we have a limited budget and must continually prioritize needs. We will investigate alternatives, but believe that it would not be an efficient use of District funds to get and maintain the necessary training for the business manager to comply with this recommendation. Nor do we consider hiring additional staff possessing these skills to be a feasible option.

Conclusion - Response accepted.

II-C-11 Cash Handling Procedures - The District has adopted procedures for properly Handling, depositing and recording cash received. It was noted that these procedures are not always being followed at the Middle School Office.

SOLON COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Recommendation - Monies received by all employees needs to be counted by and a duplicate receipt prepared by the employee who receives it. Copies of the receipts, along with the monies received, should be remitted daily or weekly, depending upon the amount, to the person responsible for making the bank deposit. Any undeposited monies should be kept in a locked safe until being deposited. The District should ensure that all adopted procedures are followed by all District personnel.

Response - We will review our procedures for money handling, depositing and recording and ensure that all employees are aware of and follow the adopted procedures.

Conclusion - Response accepted.

Part IV. Other Findings Related to Required Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2011 did not exceed the amounts budgeted.
2. Questionable Expenditures - No expenditures I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions - No business transactions between the District and District officials were noted.
5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

SOLON COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

9. Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
10. Certified Annual Reports - The Certified Annual Report was certified timely to the Department of Education; however, there were errors noted in the amounts reported for the Capital Projects - Statewide Sales, Services and Use Tax Fund as indicated in item II-F-11 above.

Recommendation - The District should review their CAR to ensure that all reported amounts are correct and complete prior to submitting to the Iowa Department of Education. The District should also adjust the beginning balance of the Capital Projects - Statewide Sales, Services and Use Tax Fund on the next year's CAR to correct for these errors.

Response - We will correct the beginning balance of the Capital Projects - Statewide Sales, Services and Use Tax Fund on the CAR for the year ending June 30, 2012, as recommended.

Conclusion - Response accepted.

11. Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
12. Statewide Sales, Services and Use Tax - No instances of noncompliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

SOLON COMMUNITY SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2011

| | | |
|--|----------------|---------------------|
| Beginning balance | | \$ 8,037,573 |
| Revenues | | |
| Statewide sales and services tax revenue | \$ 1,449,531 | |
| Other local revenues | <u>33,152</u> | 1,482,683 |
| Expenditures/transfers out | | |
| School infrastructure | | |
| School infrastructure construction | \$ 3,322,685 | |
| Equipment | 8,456 | |
| Debt service for school infrastructure | | |
| Revenue debt | <u>101,492</u> | <u>3,432,633</u> |
| Ending balance | | <u>\$ 6,087,623</u> |

For the year ended June 30, 2011, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

SOLON COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2011

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant

SOLON COMMUNITY SCHOOL DISTRICT
 Corrective Action Plan for Federal Audit Findings
 For the Year Ended June 30, 2011

| <u>Comment Number</u> | <u>Comment Title</u> | <u>Corrective Action Plan</u> | <u>Contact Person, Title, Phone Number</u> | <u>Anticipated Date of Completion</u> |
|-----------------------|---------------------------------|---|--|---------------------------------------|
| III-A-11 | Segregation of Duties | District reviewed procedures and plan to make the necessary changes, as we deem necessary to improve internal control | Pat Moore Business Manager (319)- 624-3401 | 6/30/2012 |
| III-B-11 | Financial Statement Preparation | The District will investigate alternatives, but believe that it would not be an efficient use of District funds to get and maintain the necessary training for the business manager to comply with this recommendation. Nor do we consider hiring additional staff possessing these skills to be a feasible option. | | 6/30/2012 |
| III-C-11 | Cash Handling Procedures | District reviewed procedures for money handling, depositing and recording and ensure that all employees are aware of and follow the adopted procedures. | | 6/30/2012 |

SOLON COMMUNITY SCHOOL DISTRICT
Summary Schedule of Prior Federal Audit Findings
For the Year Ended June 30, 2011

The district was not required to have a Single Audit in compliance with OMB Circular A-133 for the prior year (year ended June 30,2010), therefore, there were no prior audit findings to report.